
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**ADMINISTRATIVE COSTS CLAIMED
BY THE KANSAS DISABILITY
DETERMINATION SERVICES**

September 2010

A-07-09-19093

AUDIT REPORT



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SOCIAL SECURITY

MEMORANDUM

Date: September 28, 2010

Refer To:

To: Michael W. Grochowski
Regional Commissioner
Kansas City

From: Inspector General

Subject: Administrative Costs Claimed by the Kansas Disability Determination Services
(A-07-09-19093)

OBJECTIVES

Our objectives were to evaluate the Kansas Disability Determination Services' (KS-DDS) internal controls over the accounting and reporting of administrative costs, determine whether costs KS-DDS claimed were allowable and properly allocated and funds were properly drawn, and assess limited areas of the general security controls environment. Our audit included the administrative costs claimed by the KS-DDS during Federal Fiscal Years (FY) 2007 and 2008.

BACKGROUND

The Disability Insurance (DI) program, established under Title II of the *Social Security Act* (Act), provides benefits to wage earners and their families in the event the wage earner becomes disabled. The Supplemental Security Income (SSI) program, established under Title XVI of the Act, provides payments to financially needy individuals who are aged, blind, and/or disabled.

The Social Security Administration (SSA) is responsible for implementing policies for the development of disability claims under the DI and SSI programs. Disability determination services (DDS) in each State and other responsible jurisdictions perform determinations under both DI and SSI. Such determinations must be performed in accordance with Federal law and underlying regulations.¹ In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. To assist in making proper disability

¹ *Social Security Act* §§ 221 and 1614, 42 U.S.C. §§ 421 and 1382c see also 20 C.F.R. §§ 404.1601 *et seq.* and 416.1001 *et seq.*

determinations, each DDS is authorized to purchase medical examinations, X rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources.

SSA reimburses the DDS for 100 percent of allowable reported expenditures up to its approved funding authorization. The DDS withdraws Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payments (ASAP) system to pay for program expenditures. Funds drawn down must comply with Federal regulations² and intergovernmental agreements entered into by Treasury and States under the *Cash Management Improvement Act of 1990*.³

An advance or reimbursement for costs under the program must comply with Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. At the end of each quarter of the FY, each DDS is required to submit a *State Agency Report of Obligations for SSA Disability Programs (SSA-4513)* to account for program disbursements and unliquidated obligations.⁴ The SSA-4513 reports expenditures and unliquidated obligations for Personnel Service Costs, Medical Costs, Indirect Costs, and All Other Non-personnel Costs.⁵

The Kansas Rehabilitation Services (KRS) is the KS-DDS' parent agency. KRS is a component within the Kansas Department of Social and Rehabilitation Services (KS-SRS). KS-DDS is located in Topeka, Kansas.

RESULTS OF REVIEW

With the exception of cash management, KS-DDS' internal controls over the accounting and reporting of administrative costs were adequate to ensure costs claimed were allowable and properly allocated. With regard to cash management, we found that KS-SRS drew \$331,553 more from the KS-DDS' FY 2008 Treasury ASAP account than the KS-DDS' actual expenditures reported on the FY 2008 Form SSA-4513. We also found KS-DDS did not maintain an accurate inventory of SSA-purchased computer equipment. Regarding general security controls, we found KS-DDS' security plan did not contain all essential information required by SSA's policies.

² 31 C.F.R. § 205.1 *et seq.*

³ Pub. L. No. 101-453, 104 Stat. 1058, in part amending 31 U.S.C. §§ 3335 6501, and 6503 (1990).

⁴ SSA, Program Operations Manual System (POMS), DI 39506.201 and 202. POMS, DI 39506.200 B.4 provides, in part, that "Unliquidated obligations represent obligations for which payment has not been made. Unpaid obligations are considered unliquidated whether or not the goods or services have been received."

⁵ SSA, POMS, DI 39506.201 and 202.

CASH MANAGEMENT

KS-SRS drew \$331,553 more from KS-DDS' FY 2008 Treasury ASAP account than KS-DDS' actual expenditures reported on the FY 2008 Form SSA-4513.⁶ This occurred because KS-SRS did not have procedures to ensure funds drawn from the FY 2008 ASAP account were used to pay only FY 2008 expenditures. Instead, KS-SRS stated that it used the \$331,553 to pay KS-DDS expenditures for subsequent FYs.⁷

For each FY, State DDSs are assigned an account in the ASAP system. SSA is responsible for establishing, maintaining, and funding DDS accounts in the ASAP system. Cash draws made from an ASAP account are to reimburse DDSs for expenditures incurred during the same FY as the ASAP account's FY.

Each day, KS-SRS determined KS-DDS' cash draw needs by reviewing KS-DDS' revenue and expenditure amounts. If KS-DDS' total expenditures exceeded total revenue, a cash draw was made. However, KS-SRS did not use the appropriate FY ASAP account for the draws since it did not identify these expenditures by FY. Instead, the cash draw was generally made from the oldest FY ASAP account that still had funds available, even though KS-SRS had not determined whether the expenditures related to that or a subsequent period.

Before closing a FY, KS-SRS adjusted the cash draw amount in the FY ASAP account to reflect actual expenditures reported on the final Form SSA-4513. To adjust the cash draw down, KS-SRS transferred funds between FY ASAP accounts. Therefore, until the FY closeouts were completed, it is typical for KS-DDS' FY ASAP accounts to reflect cash draw amounts that do not equal actual expenditures.

KS-SRS' cash draw procedures were not in accordance with a Federal regulation, which provides, in part, that an appropriation or fund limited for obligation to a definite period is available only to pay expenses properly incurred during that period.⁸ In addition, the Act requires that all money paid to the State under section 221 of the Act (Disability Determinations) be used solely for the purposes for which it is paid, and any money so paid that is not used for such purposes shall be returned to Treasury for

⁶ We also identified this issue during an October 2002 review, *Audit of the Administrative Costs Claimed by the Kansas Disability Determination Services (A-07-02-22003)*.

⁷ Based on the expenditures reported on the FY 2007 Form SSA-4513 dated June 17, 2009, KS-SRS drew \$256,639 more from KS-DDS' FY 2007 Treasury ASAP account than KS-DDS' actual expenditures. Of this amount, \$253,878 was incorrectly drawn because of expenditure reporting errors according to KS-SRS (see the Other Matters section of this report). The remaining \$2,761 was used to pay expenditures for subsequent FYs according to KS-SRS. On November 9, 2009, KS-SRS refunded the \$256,639 to SSA. Therefore, we are not recommending corrective action related to cash draws for FY 2007.

⁸ 31 U.S.C. § 1502(a).

deposit in the Trust Funds.⁹ In this instance, funds were provided for disability determinations conducted during a specified period of time but were used for another period.

We recommend that the Regional Commissioner ensure KS-SRS adjusts all KS-DDS ASAP account balances to reflect actual expenditures during the same FY as the account's FY. If the adjustments identify cash draws in excess of actual expenditures, instruct KS-SRS to return the excess funds to Treasury. We also recommend that the Regional Commissioner direct KS-SRS to establish adequate controls to ensure that cash draws made from an ASAP account are for KS-DDS' expenditures incurred for the same FY as the account's FY.

INVENTORY CONTROLS

The KS-DDS did not maintain an accurate inventory of SSA-purchased computer equipment. Specifically, the inventory records did not include all information required by SSA.¹⁰ According to SSA instructions, the inventory listing should include the following.

1. Description
2. Source of funds used to purchase (for example, State vs. Federal)
3. Unit cost (applicable for State purchases only)
4. Inventory or serial number
5. Date purchased
6. Physical location, including building address and room or floor location

The DDS inventory listing did not include the following required elements – the source of funds used to purchase the computer equipment and the date the equipment was purchased. In addition, we identified incorrect and missing serial numbers and incorrect physical locations for several equipment items on the inventory listing. We recommend the Regional Commissioner instruct KS-DDS to track SSA-purchased computer equipment with an inventory system that complies with SSA policies.

INCOMPLETE SECURITY PLAN

KS-DDS' security plan did not contain all information required by SSA policy. The KS-DDS security plan was missing essential information regarding Physical Security, Violation Reports and Resolution, Continuity of Operations, and Disaster Recovery. Because of the sensitive nature of the security plan information, we are not identifying the missing essential information in this report. Rather, the missing essential information was provided to SSA and KS-SRS separate from this report.

⁹ *Social Security Act* § 221(f), 42 U.S.C. § 421(f).

¹⁰ SSA, POMS, DI 39530.020 B.1.

A delay in creating a complete security plan could result in a longer recovery period following a catastrophic event. We recommend the Regional Commissioner instruct the KS-DDS to complete a security plan meeting SSA requirements timely.

CONCLUSION AND RECOMMENDATIONS

With the exception of cash management, KS-DDS' internal controls over the accounting and reporting of administrative costs were adequate to ensure costs claimed were allowable and properly allocated. With regard to cash management, we found that KS-SRS drew \$331,553 more from the KS-DDS' FY 2008 Treasury ASAP account than KS-DDS' actual expenditures reported on the FY 2008 Form SSA-4513. We also found that KS-DDS did not maintain an accurate inventory of SSA-purchased computer equipment, and KS-DDS' security plan did not contain all information required by SSA's policies. Accordingly, we recommend the SSA Regional Commissioner:

1. Ensure KS-SRS adjusts all KS-DDS ASAP account balances to reflect actual expenditures for the same FY as the account's FY. If the adjustments identify cash draws in excess of actual expenditures, instruct KS-SRS to return the excess funds to Treasury.
2. Direct KS-SRS to establish controls that ensure cash draws made from an ASAP account are for KS-DDS' expenditures incurred during the same FY as the account's FY.
3. Instruct KS-DDS to track SSA-purchased computer equipment with an inventory system that complies with SSA policies.
4. Instruct KS-DDS to complete a security plan meeting SSA requirements timely.

AGENCY COMMENTS

SSA and KS-SRS agreed with our recommendations (see Appendices C and D).

OTHER MATTERS

To conduct our audit, we requested that KS-SRS provide electronic records to support (1) KS-DDS' FY 2007 expenditures reported on the January 22, 2009 Form SSA-4513 and (2) KS-DDS' FY 2008 expenditures reported on the April 21, 2009 Form SSA-4513.¹¹ In preparing the requested electronic records, KS-SRS reported that it had overstated KS-DDS' FY 2007 expenditures reported on the Form SSA-4513 by \$253,878. KS-SRS attributed the overstatement of expenditures to various reporting errors.

¹¹ For each FY where unliquidated obligations remain, the State agency is responsible for preparing a Form SSA-4513 quarterly and submitting the form(s) to SSA's Central Office. POMS, DI 39506.210 A. and POMS, DI 39506.202.

To resolve the overstatement, KS-SRS refunded \$253,878 to SSA. In addition, KS-SRS revised the Form SSA-4513 for FY 2007 to reflect the correct expenditure amount. For our audit, we reviewed the expenditures reported on the revised Form SSA-4513 for FY 2007 dated June 17, 2009.

The electronic records provided by KS-SRS supported KS-DDS' FY 2008 expenditures reported on the April 21, 2009 Form SSA-4513. Therefore, we believe the overstatement of the KS-DDS' FY 2007 expenditures was due to unintentional reporting errors as opposed to a systemic weakness in expenditure reporting. Therefore, we are not making a recommendation.

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr.", with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

Appendices

APPENDIX A – Acronyms

APPENDIX B – Scope and Methodology

APPENDIX C – Agency Comments

APPENDIX D – Parent Agency Comment

APPENDIX E – OIG Contacts and Staff Acknowledgments

Acronyms

Act	<i>Social Security Act</i>
ASAP	Automated Standard Application for Payments
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
FY	Fiscal Year
KRS	Kansas Rehabilitation Services
KS-DDS	Kansas Disability Determination Services
KS-SRS	Kansas Department of Social and Rehabilitation Services
OIG	Office of the Inspector General
POMS	Program Operations Manual System
Pub. L. No.	Public Law Number
SSA	Social Security Administration
SSA-4513	<i>State Agency Report of Obligations for SSA Disability Programs</i>
SSI	Supplemental Security Income
Treasury	Department of the Treasury
U.S.C.	United States Code

Scope and Methodology

SCOPE

To achieve our objective, we:

- Reviewed applicable Federal laws and regulations, pertinent parts of the Social Security Administration's (SSA) Program Operations Manual System, and other criteria relevant to administrative costs claimed by the Kansas Disability Determination Services (KS-DDS) and the drawdown of SSA program appropriations.
- Interviewed staff at the Kansas Department of Social and Rehabilitative Services (KS-SRS) and the KS-DDS.
- Reviewed State policies and procedures related to Personnel, Medical Services, Indirect, and All Other Non-personnel Costs.
- Evaluated, tested, and documented internal controls regarding accounting, financial reporting, and cash management activities.
- Reconciled State accounting records to the administrative costs reported by KS-DDS on the *State Agency Report of Obligations for SSA Disability Programs (SSA-4513)* for Federal Fiscal Years (FY) 2007 and 2008.
- Examined specific administrative expenditures (Personnel, Medical Services, and All Other Non-personnel Costs) incurred and claimed by KS-DDS for FYs 2007 and 2008 on the SSA-4513. We used statistical sampling to select expenditures to test for support of the Medical Services and All Other Non-personnel Costs, as discussed below.
- Examined the indirect costs claimed by KS-DDS for FY 2008.
- Compared the amount of SSA funds drawn to support program operations to the expenditures reported on the SSA-4513.
- Determined whether selected funds from canceled warrants were properly returned to SSA.
- Determined whether unliquidated obligations were properly supported.
- Reviewed KS-DDS' general security controls.

- Reviewed Office of Management and Budget guidance related to safeguarding personally identifiable information.

We determined the data provided by KS-SRS and KS-DDS and used in our audit were sufficiently reliable to achieve our audit objectives. We assessed the reliability of the data by reconciling them with the costs claimed on the SSA-4513. We also conducted detailed audit testing on selected data elements in the electronic data files.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We conducted fieldwork from August 2009 through June 2010.

METHODOLOGY

SAMPLING METHODOLOGY

The sampling methodology encompassed the four general areas of costs reported on the SSA-4513: (1) Personnel, (2) Medical Services, (3) Indirect, and (4) All Other Non-personnel Costs. We obtained a data extract of all costs and the associated invoices for FYs 2007 and 2008 for use in statistical sampling. We obtained this from the accounting systems used in preparing the SSA-4513.

Personnel Costs

We randomly selected 1 pay period, with a pay period end date of December 15, 2007, for review. We then selected a random sample of 50 regular employees for review and testing of the payroll records. For medical consultant costs, we also selected the pay period month of December 2007 (medical consultants are paid monthly) for review. We then selected all 28 medical consultants for review and testing of the payroll records.

Medical Services Costs

We sampled 100 items (50 items each from of FYs 2007 and 2008) using a stratified random sample of medical costs based on the proportion of medical evidence of record and consultative examination costs to the total medical costs claimed.

Indirect Costs

We reviewed all 4 quarters of FY 2008 to ensure pools were allocated in accordance with the approved State FY 2008 cost allocation plan. We determined the allocation methods were reasonable for the type of expense being allocated. In addition, we reviewed various transactions from the fourth quarter of FY 2008. We determined the transactions were accurate, adequately documented, and properly categorized in the various cost pools.

All Other Non-personnel Costs

We sampled 104 items (52 expenditures from FY 2007 and 52 from FY 2008) using a stratified random sample. The random sample was based on the proportion of costs in each of the cost categories to the total costs claimed.

Agency Comments

September 08, 2010

TO : Office of the Inspector General

FROM : Deputy Commissioner for Operations

SUBJECT: DCO REPLY: Administrative Costs Claimed by the Kansas Disability Determination Services

Thank you for the opportunity to provide input on the draft report of the administrative cost audit conducted at the Kansas DDS. Overall, we are pleased with the results of the audit which show the Kansas DDS maintains strong control of their fiscal processes. We agree with the four recommendations in the draft, and offer the following updates since the draft report was released.

Recommendation One

Ensure KS-SRS adjusts all KS-DDS ASAP account balances to reflect actual expenditures for the same FY as the account's FY. If the adjustments identify cash draws in excess of actual expenditures, instruct KS-SRS to return the excess funds to Treasury.

Response – We agree with this finding. Kansas SRS is changing their policy and will adjust all KS-DDS ASAP account balances to reflect actual expenditures for the same FY as the account's FY. If the adjustments identify cash draws in excess of actual expenditures, KS-SRS will return the excess funds to Treasury.

Recommendation Two

Direct KS SRS to establish controls that ensure cash draws made from an ASAP account are for KS-DDS' expenditures incurred during the same FY as the account's FY.

Response – We agree with the audit findings. Kansas SRS is changing their policy of drawing funds from the oldest grant year until funding is exhausted. They are currently evaluating past year expenditures to determine a date to cut-over to the new grant year. The region will follow-up with SRS on a quarterly basis until their evaluation of a cut-over date is complete, and the region will monitor the quarterly 4513s for compliance.

Recommendation 3

Instruct KS-DDS to track SSA-purchased computer equipment with an inventory system that complies with SSA policies.

Response - The Kansas DDS is modifying their computer inventory to meet SSA requirements. The regional office will follow-up with the DDS in 30 days to ensure the inventory is updated and that it complies with SSA standards.

Recommendation 4

Instruct KS-DDS to complete a security plan meeting SSA requirements timely.

Response - The Kansas DDS has updated their security plan to contain all information required by SSA policy. A copy of the updated security plan is available from the Kansas City Center for Disability Programs upon request.

Thank you for the opportunity to provide input on the draft report.

Staff with questions should contact Eric Ryan, Disability Program Administrator, at (816) 936-5685.

Roger McDonnell for Mary Glenn-Croft

Parent Agency Comments

August 25, 2010

Re: Report Number: A-07-09-19093; Response to Draft Report – Administrative Costs Claimed
By The Kansas Disability Determination Services;

Mr. Patrick P. O'Carroll, Jr
Inspector General
Office of Inspector General
Social Security Administration
Baltimore, Maryland 21235-0001

Dear Mr. O'Carroll:

Thank you for giving us the opportunity to respond to the above referenced draft report. We appreciate the professionalism of your staff in conducting the audit and in keeping us informed of its status. We will also send an electronic copy of this response as Mark Bailey as you directed in the cover letter.

OIG Recommendation #1: Ensure KS-SRS adjusts all KS-DDS ASAP account balances to reflect actual expenditures for the same FY as the account's FY. If the adjustments identify cash draws in excess of actual expenditures, instruct KS-SRS to return excess funds to Treasury.

OIG Recommendation #2: Direct KS-SRS to establish controls that ensure cash draws made from an ASAP account are for KS-DDS' expenditures incurred during the same FY as the account's FY.

State of Kansas SRS Rehabilitation Services' Response: We agree with the audit findings. We are changing our policy of drawing from the oldest grant year until it is exhausted before cutting-over to the new grant year. Instead, we will determine a date to cut-over to the new grant year by analyzing the dates old and new Federal fiscal year expenditures were paid during the quarter ending 12-31-09. This will get the cut-off close, although it will not be 100% accurate. The final "true-up" will occur once the quarterly 4513 expenditure reports for each fiscal year are calculated and reconciled to the state accounting system and the Federal ASAP accounts for each grant year. Reconciliation adjustments will be made to the state accounting system and the ASAP accounts as each quarter is reconciled.

OIG Recommendation #3: Instruct KS-DDS to track SSA-purchased computer equipment with an inventory system that complies with SSA policies.

State of Kansas SRS Rehabilitation Services' Response: KS DDS will maintain an accurate inventory of SSA purchased computer equipment. The inventory will include all necessary data elements. KS/SRS/DDS inventory controls do not require anyone outside of DDS to have a copy

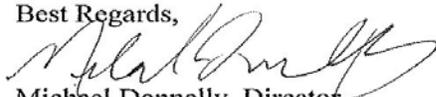
of this inventory list. However, to comply with this request, a copy of the DDS inventory list will be sent to the state inventory control.

OIG Recommendation: Instruct KS-DDS to complete a security plan meeting SSA requirements.

State of Kansas SRS Rehabilitation Services' Response: We agree with this finding. All additional required information has been added to the security plan.

Should you have any additional questions, please contact

Best Regards,



Michael Donnelly, Director
Kansas Rehabilitation Services



Don Jordan, Secretary
SRS

CC: Mark Bailey, Office of Inspector General, Social Security Administration
Connie Wold, Director, Kansas Disability Determination Services
Laura Howard, Deputy Secretary, SRS Administration
Candace Shively, Deputy Secretary, SRS Integrated Service Delivery
Lois Weeks, Director, SRS Office of Financial Management
Mary S. Hoover, Director, SRS Office of Audit and Consulting Services

OIG Contacts and Staff Acknowledgments

OIG Contacts

Mark Bailey, Director, Kansas City Audit Division

Kenneth Bennett, IT Specialist, Kansas City Audit Division

Acknowledgments

In addition to those named above:

Nicholas Moore, Auditor

Karis Crane, Auditor

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